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The Emerging Discipline of Innovation Management

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How did a one-hundred-year-old family grocery business in Texas grow to become today's innovative purveyor of "H-E-B *goodness!*" and the 10th largest privately-held business in America? How was it that Dayton-Hudson morphed into the dynamic Target Corporation while their fellow department stores continue to labor under intense pressures to this day?

Consider, for contrast, the once dynamic and now defunct Woolworth Corporation. Woolworth pioneered the chain store concept in the early Twentieth Century, along with their grocery-side contemporary A & P, and created a never-before-seen format, the five & dime. The prototypical mass merchant, Woolworth attained economies of scale and passed on low prices to their customers, establishing a benchmark of efficiency for modern retailing, and garnering a spot for themselves as a mainstay of Main Street for the better part of a century.

But then, why did the pioneering retailer Woolworth falter and die in the mid-Nineties, even with a creative chairman at the helm, Roger Farah, who went on to bring Polo Ralph Lauren, the innovator *par excellence* of lifestyle retailing, to even greater heights? Actually, in general, why do some retailers break through a prevailing mediocrity and achieve greatness while others don't? Is it a matter of leadership, an abundance of creativity, the quality of execution, a happy convergence of company *whatever* with consumer and market trends? All or none of the above?

The Rise of Innovation Management

It's an easy guess that retailers today spend a great deal more time thinking about comp store sales and store budgets than about innovation. Given retail's pressures, it sometimes seems in fact that *any* concern beyond this coming Saturday is in the realm of long-range planning. Why should a conscious and planned-out drive for innovation merit center stage? Isn't innovation largely a matter of intuition, inspiration, and creativity? Increasing supply chain efficiencies, improving marketing ROI, or upping inventory turns certainly demands planning, attention to the numbers, best-practice implementation, and the like. But is innovation really that kind of thing?

Grocery industry suppliers seem to think so. CPG companies are facing up to the notion that innovation isn't an entirely right-brain activity, and that the creativity and inventiveness of their human resources can be channeled more profitably through an end-to-end innovation process.

As the wheel of business evolution continues to turn, an increasing number of companies are reminding themselves that eliminating fat and controlling costs is not going to put their companies, or America for that matter, at the competitive edge. While innovation has always been at the foundation of successful companies, the way executives view innovation has changed. Increasingly, the conscious focus of corporate America is on managing innovation as a driver for growth and ultimately sales, profitability, and shareholder value.

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Some Examples

In 2003, Kimberly-Clark embarked on an initiative precisely along these lines. Under the leadership of Innovation Chief Cheryl Perkins, Kimberly-Clark set in place a company-wide innovation process that put structure around how the company would spot and bring to fruition the promising insights and technologies needed to enhance their competitive differentiation and advantage. This innovation framework is credited by management for the successful launch of new baby offerings, including Huggies Cleanteam toiletries in early 2006. "Kimberly-Clark has reenergized the $680 million baby and toddler bath and body category since entering the market with Huggies Bath & Body toiletries in late 2004," said Steve Kalmanson, group president, North Atlantic Consumer Products. "With the launch of Huggies Cleanteam toiletries, we believe we will further drive category growth with exciting, innovative solutions that help moms teach their kids the importance of being clean, while having fun in the process."

P & G also places a specific management emphasis on innovation. Earlier this year, P & G was cited by *Business Week* as No.7 on its list of the most innovative companies (just behind an elite group of companies including Apple, Google, 3M, Toyota, Microsoft, and GE, yet ahead of such acknowledged innovators as Starbucks, eBay, and Southwest Airlines. P & G also ranks ahead of *every* retailer on the list. The list of retailers, conspicuously short on traditional grocery stores, includes IKEA (#19), Wal-Mart (#20), Amazon (#21), Target (#22), Whole Foods (#36), Tesco (#38), Bang & Olufsen (#48), Woolworth (chains using this name survive in the United Kingdom, Germany, Mexico, Australia, New Zealand and South Africa), Spanish fashion retailer Zara (#59), Costco (#84), Home Depot (#92), vertically-integrated luxury goods company LVMH, and Gap (#94).

Over the past few years, P&G has moved toward what it calls an open-source innovation strategy, with the intent to put to use nothing less that the collective brainpower of the world. To bring this hyperbolic-sounding goal to measurable concreteness, P&G has set a goal that 50% of the company's new products should originate from inventors, scientists, and suppliers outside P&G labs.

Like Kimberly-Clark, P&G has implemented organizational change to accord with this conscious focus on innovation. Larry Huston was named for a new position called vice-president for innovation and knowledge, which was established to connect and focus innovation efforts companywide. Each individual P&G business unit added a manager responsible for driving cultural change around the new model.

The Central Challenge of Innovation

Everyone is exhorting retailers, and America as a whole, to innovate. It's the only remaining route to advantage for American business, according to Tom Peters. But exactly what enables a company to be innovative? Can innovation - the creation of something new and perceived as desirable by the marketplace – really be founded in data analysis, and driven by structured methods and rigorous analysis?

Boston Consulting Group (upon whose research and analysis *Business Week's* list is based), and an increasing number of corporate leaders and professional thinkers, would say, "yes." BCG has done benchmarking work, as well as research, on innovation and makes a fundamental observation about the central challenge and ultimate measure of innovation: what counts is less the number of great ideas a

company has, or even the quality of execution, and more the extent to which a company brings *the very best of a company's potent ideas* to the marketplace. It's about spotting, selecting, nurturing, and launching those vital few.

There are many different theories and frameworks for exactly how to go about doing this, and we will discuss some of these in next month's *In-Store*. We will also at that time profile some of the innovative companies in the In-Store/GEMCON community. In the meantime, let's take a look at what appears to be a clear pattern in what is eventually deemed innovative within the world of retailing.

Getting to Aha!

Trendwatcher Pam Massenburg has discussed in her *In-Store* articles the multiplier effect that can come from spotting and riding multiple trends. Much, if not all, innovation comes from simultaneously tapping multiple trends that seem at first to be contradictory - often precisely a trend and a counter-trend. Let's look at a few examples.

Whereas Woolworth made important everyday items readily accessible and affordable for a mass market, thereby bridging an apparent contradiction (the ready accessibility of necessary items at a low price), the office product purveyor Staples did its own reconciliation of seeming opposites. Staples brought "easy-ness" to something deemed by consumers and small businesses as anything but easy before Staples came along: provisioning a modern-day, technology-enabled office. Staples invented the office superstore concept in 1986, and has played out the formerly oxymoronic easy-office products concept into a mega-business accounting for $16.1 billion in sales last year.

At Staples' inception, consumers were both working more outside of the confines of a traditionally structured work place, and increasingly protective of their scarce leisure time. Staples' fundamental insight leveraged both the growth of home-, mobile-, and decentralized work environments with the lifestyle-preserving "easy-ness" demanded by a leisure-starved consumer. In doing this, Staples caught the compound demand wave created by burgeoning home offices on the one hand, and the increased need on the part of both harried consumers and pressured businesses for ease and speed.

Staples continues to play out, vary, and evolve the innovative easy-office products theme to track closely with the hearts and minds of their customers. Consider the current Easy Button ad campaign. In addition to the ads themselves, over 100,000 Easy Buttons have been sold at $4.95 each with a substantial portion of the proceeds going to the Boys and Girls Club of America – one among many examples of Staples' response to its customers' desire to get what they want, while also "giving back." Staples catches the wave: today's consumer's need for easy-ness, on the one hand, and the assuaging of social conscience on the other.

Consider another example: Target. Target turned on its head the alleged contradictions between low cost and fashionability, and between low cost and high quality. The payoff for this innovative approach: not only strong year-to-year performance, but also a clientele that is younger, better educated and affluent, than its competitors. The goliath in Target's arena being Wal-Mart, any and all advantages in this regard are worthy of note and study!

Ralph Lauren, in an astonishing fusion of contradictory elements back in the 1960s, made a lifeless staple of men's clothing into a lifestyle beacon, a status symbol, a vehicle for personal expression, and

the founding element of a company that today positions itself not to sell ties or any products at all, per se, but rather a way of living.

Innovation in retailing, then, seems to center around resolving contradiction, creating meaningful experiences that satisfy seemingly (and otherwise) irreconcilable needs, wants or aspirations on the part of customers. Interestingly, the resolution that ends up being recognized as *innovation* is *not* typically the one that delivers a compromise.

Retail's evolutionary turning points have *not* been created by average levels of availability at middling price levels; office products that aren't all-that-tough to select or implement; a fair degree of fashionability for an OK price; or even a better version of a boring, narrow tie. It's not about actually about compromise or trade-off at all. It's about breaking right through the seeming dichotomies, and creating a new and meaningful offering that the marketplace sees, often immediately, as such.

Interestingly – think of the Easy Button - we might think,"Aha! That's spot-on. Why didn't *I* think of that!" The truly innovative is often self-evident once it happens, and this goes a long way toward inspiring and uniting an organization, and aligning efforts to carry forward the success.

Jazz, TRIZ, and Other Routes to Breaking Through

The idea of actively managing innovation isn't new. Peter Drucker, arguably the father of modern management and an author who wrote about business for sixty years, felt that innovation could be presented as a discipline, much like Quality Improvement or Supply Chain Management, and that it could be learned and practiced. "Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation," he wrote. "And they need to know and to apply the principles of successful innovation."

Companies have sought and found various ways to spark the innovation process, including unusual ones. Michael Gold, Ph.D., developed *Jazz Impact* to inspire business innovation through jazz. Jazz is characterized by constant change and ongoing improvisational response to change, collaboration, tension, harmony, resolution, and evolution, and it has the ability to engage and inspire. In the view of some, jazz evolves and thrives through the very same skills that companies need to innovate and break through. *Jazz Impact* has worked with such companies as: Starbucks, General Mills, Cargill, Carlson Companies, Best Buy, Accenture and IBM.

Another, entirely different approach to inspiring and managing innovation is known as "TRIZ" (pronounced "trees"), an acronym for the Russian phrase that stands for "Theory of Inventive Problem Solving." TRIZ was developed in the former Soviet Union in the 1940s by Genrich Altshuller. Altshuller conducted an extensive study of practical inventions with the intent to formalize a universal set of principles that characterize innovation.

TRIZ research has continued over the past six decades, and over 2 million patents have been analyzed to surface and round out this set of principles, and to thereby make innovation teachable as a discipline, and to make it manageable, and ultimately more predictable. Among the companies that have used TRIZ are Motorola, P&G, 3M, Samsung, Siemens, and Phillips – all cited on *Business Week's* list of the 100 most innovative companies.

The TRIZ innovation process itself is intuitive, and follows the same four-part movement from definition (or inception) through resolution (or integration) that characterizes many successful frameworks. It progresses from visualization and definition of the problem; to understanding of how your problem can be cast as a more generic problem, faced by many people in the past; to understanding how the universal principles or patterns for great solutions might be applied to your problem; and finally to pinpointing and integrating a solution into your real-world context.

Innovation Management in Retailing

It's one thing to identify and develop an innovative idea, and it's another thing to galvanize the energies and efforts of a far-flung retail organization to carry out the idea in its Marketing, Merchandising, and Visual Merchandising, and all the way to the stores, the web, and every point of contact with the customer.

Target (pronounced à *la Française* or otherwise) plays out its innovative underlying idea in a focused way. With its more upscale customer in mind, Target shuns Musak and announcements through a public address system. The aisles are wider, and the ceilings lower. Target's merchandise includes exclusive product lines and special editions acquired through deals with Apple, the Food Network, and various designers, and it is presented in a more appealingly way than at rival Wal-Mart. In playing out a brand, vocabulary also counts. So Target doesn't use the terms "customer" or "client" but rather "guest." Its employees are "team members" whose supervisors are "team leaders."

Retailers don't make widgets, at least not typically. They create relationships with customers, communities, the marketplace, employees, suppliers, business partners, and shareholders. So innovation in retail is less about resolving the kind of physical or mechanical problems inherent in product development (although there's often at least some of this); it's more about breaking through seeming conflicts in what customers demand to frame a winning value proposition that the marketplace has never before seen in quite this way. It's Staples' "Easy," the Polo lifestyle, and all that Tar-zhay evokes. Crystallizing this value proposition - and continuously playing out, filling in, intensifying, and evolving it - is the stuff of innovation management in retailing.